Congress of the United States

WASHINGTON, DC 20510

May 5, 2008

The Honorable Ben S. Bernanke
Chairman
The Federal Reserve Board
20th and C Street, NW
Washington, DC 20551

The Honorable Henry M. Paulson, Jr.
Secretary of the Treasury
United States Department of the Treasury
1500 Pennsylvania Avenue, NW, Suite 3330
Washington, DC 20220

Dear Chairman Bernanke and Secretary Paulson:

We are writing about the issuing and implementing of the regulations required by the Unlawful Internet Gambling Enforcement Act of 2006 ("UIGEA") (Public Law 109-347, Title VIII).

At the outset, we would like to commend the Federal Reserve Board and the Department of the Treasury for issuing proposed regulations that will *not* exempt any payment system from the requirement to block illegal Internet gambling transactions. If any major payment system is wholly exempted, or if international transactions within any payment system are exempted, the regulations would give Internet gambling operators a green light to resume deliberate violation of U.S. gambling laws, as they did before UIGEA was enacted. We understand that no regulatory system will be perfectly effective in intercepting unlawful Internet gambling transactions, but strong enforcement of UIGEA will likely serve as an effective deterrent to the majority of unlawful Internet gambling.

We also have a number of concerns. First, UIGEA required the final regulations to be issued by July 10, **2007**. The proposed regulations were not issued until October 2007. The final regulations should become effective no later than July 10, 2008; implementation more than one year after the statutory deadline is unreasonable.

Second, we are aware that Representatives Barney Frank and Ron Paul introduced H.R. 5767, which would halt promulgation of any regulations to implement UIGEA. During the 109th Congress, Representatives Frank and Paul were among a minority in the House who voted against UIGEA, which passed the House by an overwhelming majority, 317 to 93. The Frank-Paul bill does not represent the views of the majority in Congress, and there is no reason to expect that it will be enacted.

Moreover, it has also come to our attention that Representatives Frank and Paul and two other members recently sent a letter urging that the Federal Reserve Board and the Department of the Treasury abandon efforts to finalize the regulations required by UIGEA. Efforts taken by opponents of UIGEA to halt promulgation of the regulations conflict with Congress's intent as expressed in the law. Agencies are duty-bound to promptly comply with the laws that are on the books and must not refuse or defer enforcement of a law under their charge based on the un-enacted wishes of a minority of Congressmen.

Third, we are concerned by arguments advanced by critics of the proposed regulations. Some of these arguments, which are based on certain complexities in underlying federal and state gambling laws, were discussed in testimony before the House Financial Services Committee on April 2. These types of arguments are relevant to only a tiny portion of illegal Internet gambling transactions in the United States, and ignore the lion's share of online gambling, which involves illegal sports wagering and gambling in offshore online casinos.

For instance, the Federal Reserve Board and the Department of the Treasury have received many comments suggesting that a list of "bad actors" would be a more workable method for ACH and wire transfer systems than the current "due diligence" proposals. Nonetheless, it was suggested at the Finance Committee's hearing that the agencies are not inclined to use a list of "bad actors" because law breakers might also conduct some legal transactions. In our view, it would be inappropriate for the Federal Reserve Board and the Department of the Treasury to promulgate regulations that would allow the U.S. financial system to be exploited by the criminal element on the basis that those criminals may, at times, engage in lawful transactions as well.

We urge the Federal Reserve Board and Department of the Treasury to fulfill their statutory obligations by issuing and implementing strong regulations for UIGEA in the immediate future.

Sincerely,

Spencer Bachus
Ranking Member
House Committee on Financial Services

Jon Kyl
Republican Whip
U.S. Senate